

INTERSTATE
DEPARTMENT STORES, INC.

NEW YORK, N. Y.

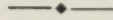
ANNUAL REPORT

YEAR ENDING

JANUARY 31, 1936

DIRECTORS

PHILIP I. CARTHAGE	PAUL M. MAZUR
CHRISTIAN E. DAHLGREN	ALBERT PARKER
HENRY GESSNER	JOHN STILLMAN
DAVID LEVENTHAL	HAROLD J. SZOLD
WILL I LEVY	BENJAMIN VOLEN



OFFICERS

<i>President</i>	HENRY GESSNER
<i>Executive Vice-President</i>	BENJAMIN VOLEN
<i>Vice-President</i>	WILL I LEVY
<i>Vice-President</i>	JOHN STILLMAN
<i>Treasurer</i>	PHILIP I. CARTHAGE
<i>Secretary</i>	ALBERT PARKER
<i>Assistant Secretary</i>	FREDERICK CORD

APRIL 9, 1936.

TO THE STOCKHOLDERS OF

INTERSTATE DEPARTMENT STORES, INC.:

Submitted herewith are the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1936 and for the fiscal year then ended.

The consolidated net profit for this period was \$442,437.90, equivalent to 2.55 times the annual dividend requirements on the Preferred Stock outstanding at the end of the fiscal year. This is equivalent to net earnings of \$1.24 per share of Common Stock exclusive of those shares held in the Company's treasury, after such dividend requirements on the Preferred Stock. As reported, the earnings of the Company in the preceding fiscal year were \$474,086.92, equivalent to \$1.47 per share of Common Stock, exclusive of those shares then held in the Company's treasury, after current dividend requirements on the Preferred Stock. As noted below, the number of shares of Common Stock outstanding and not held in the Company's treasury increased during the fiscal year from 203,602 to 216,762.

As shown by the accompanying Consolidated Balance Sheet the Company continues in a satisfactory financial condition. The ratio of current assets to current liabilities as of January 31, 1936 was 3.58 to 1, the same ratio as that of January 31, 1935. Net working capital increased during the year by \$194,609.79 from \$3,286,918.71 to \$3,481,528.50. Cash at January 31, 1936 of \$1,342,490.73 is approximately as much as the total of the current liabilities of \$1,348,777.04 on that date. The Company did not borrow any funds from banks during the fiscal year.

Year-end inventories, including goods in transit were valued at \$2,978,038.05 as determined by the retail method of inventory, compared with \$2,588,368.33 at the close of the preceding fiscal year. An age analysis of total retail inventory in all 40 stores on January 31, 1936 showed that 93.13% was one year or less in age, while in the total inventory in the 36 stores which were in operation during the entire fiscal year there was 92.71% of merchandise one year or less in age compared with 90.51% in these same stores on January 31, 1935. Reserves have been provided on merchandise in store inventories for over one year in accordance with the same formula used in the preceding fiscal year.

Customers' Accounts Receivable, after reserves, were \$426,501.62 on January 31, 1936, an increase of \$142,775.75 above this item of the year before. This increase is largely due to increased sales on larger items of household furnishings and electrical appliances which are generally sold on deferred payment terms and to increased sales of fur coats and other articles on the "lay-away" plan in order to maintain a competitive position with stores which permit charge accounts. Reserves against gross accounts receivable have been provided on the same basis as in the preceding year. Despite the general tendency toward an expansion of credit business, stores continue to maintain their same policy of being predominantly cash stores, with the above exceptions which continue practices of long standing in the stores.

A determination of the status of the several surplus accounts has been made by the Company's independent accountants, and it is to be noted that the result of this is shown in the accompanying Consolidated Financial Statements as of January 31, 1936.

On August 1, 1935 following the payment to Preferred Stockholders of all arrears of dividends on the Company's outstanding Preferred Stock, there were distributed 3160 shares of the Common Stock of the Company held in the Company's treasury, in connection with additional compensation payable on earnings for the fiscal year 1934 under the contracts of employment with members of the Management and under the contract for advisory services with Lehman Brothers, and since the close of the fiscal year 1935, 2830 such shares of Common Stock have been distributed in respect of such additional compensation payable for the fiscal year 1935. On December 6, 1935 Lehman Brothers completed the exercise of their option to purchase, at \$10 per share, 10,000 shares of the Common Stock of the Company held in the Company's treasury, which option was contained in the contract for advisory services in connection therewith, which, by its terms, expired on January 31, 1936.

During the fiscal year ended on January 31, 1936 sales in stores operated by subsidiary companies were \$23,938,448.77, including sales of leased departments, an increase of \$352,792.81 or 1.50% above the sales of the preceding fiscal year. \$470,290.81 of the year's sales came from the four additional stores opened during the Fall season of 1935 at Evansville, Anderson and Marion, Indiana and at Trenton, New Jersey. In several cities, stores were closed or only in partial operation during periods of alteration or change of location made during the year 1935. A total of 40 stores are now in operation. During the fiscal year 1935 alterations, repairs and improvements to equipment and plants were made in a number of stores, the total expenditures for this amounting to \$239,639.10. The program for modernizing store buildings and interior arrangements and fixtures is still continuing, in part through the co-operation of landlords who are bearing a proportion of such expenses as affect the improvement of their buildings.

Very truly yours,

HENRY GESSNER, *President.*

INTERSTATE DEPAR

AND SUBSIDIA

CONSOLIDATED BALANCE SH

A S S E T S

CURRENT ASSETS:

Cash on hand and in banks			\$1,342,490.73
Accounts receivable—trade	\$ 472,313.44		
Less: Reserves	45,811.82	\$ 426,501.62	
Due from leased departments, vendors, etc.	94,142.35		
Less: Reserves	10,867.21	83,275.14	509,776.76
Merchandise inventories, certified by the management as to quantities and marketable condition and as to valuation at the lower of cost or market.		2,816,742.55	
Merchandise in transit		161,295.50	2,978,038.05
Total Current Assets			4,830,305.54

OTHER ASSETS:

Deposits in closed banks, less reserve of \$44,068.32.....	5,820.21		
Advances to employees, less reserves	947.11		
Miscellaneous other assets, including rent deposits, investments, claim receivable, etc., less reserve	30,382.56		37,149.88

FIXED ASSETS—AT COST:

Land and buildings	752,000.00		
Less: Reserve for depreciation	47,436.63	704,563.37	
Leaseholds	247,897.12		
Less: Reserve for amortization	88,911.81	158,985.31	
Alterations and improvements to leased premises	548,313.47		
Less: Reserve for depreciation	247,352.26	300,961.21	
Furniture and fixtures	1,395,161.69		
Less: Reserve for depreciation	822,436.68	572,725.01	
Delivery equipment	6,056.59		
Less: Reserve for depreciation	2,369.58	3,687.01	1,740,921.91

DEFERRED CHARGES:

Prepaid expenses, unexpired insurance, etc.	93,692.59		
Supplies	50,103.35		
Pre-opening expense	20,465.80		164,261.74
			<u>\$6,772,639.07</u>

* The shares reacquired are reserved under compensation agre

MENT STORES, INC.

Y COMPANIES

ET AS AT JANUARY 31, 1936

LIABILITIES

CURRENT LIABILITIES:

Accounts payable—trade	\$ 753,120.11
Accounts payable for merchandise in transit	161,295.50
Accrued salaries and expenses	117,332.38
Accrued Federal, State and other taxes	214,729.78
Sundry creditors and accruals	46,145.10
Current installment of notes payable on real estate and accrued interest	35,216.67
Current installment of first mortgage 5% gold bonds, Series A, and accrued interest	20,937.50

Total Current Liabilities	1,348,777.04
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Notes payable on real estate—due quarterly to December 31, 1937	\$ 65,000.00	
Less: Current installments included above	35,000.00	30,000.00
First mortgage 5% gold bonds, Series A, due annually to March 1, 1949 ..	285,000.00	
Less: Current installments included above	15,000.00	270,000.00
Total Liabilities		1,648,777.04

Accrued additional compensation—payable in common stock	14,150.00
Minority interest in subsidiary company	5,983.49

CAPITAL STOCK:

Preferred Stock 7% Cumulative, par value \$100.00 per share (redeemable at \$110.00 per share, plus accrued dividends):

Authorized, issued and outstanding—24,800 shares	2,480,000.00
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Common Stock, no par value:

Authorized—240,000 shares

Issued (stated value \$5.00 per share)	233,602 shares	\$1,168,010.00
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Less: Reacquired	16,840 shares*	84,200.00
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Outstanding	216,762 shares	1,083,810.00
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Surplus—per Statement No. 2	1,539,918.54	5,103,728.54
		<u>\$6,772,639.07</u>

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS

AS AT JANUARY 31, 1936

BALANCE, February 1, 1935	\$1,307,880.64
ADD:	
Excess of selling price over stated value of 10,000 shares of no-par common treasury stock re-issued during the year ended January 31, 1936.....	50,000.00
Net profit for the year ended January 31, 1936—per Statement No. 3	442,437.90
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	\$1,800,318.54
LESS:	
Dividends paid on preferred stock—six quarterly dividends	260,400.00
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BALANCE, January 31, 1936	\$1,539,918.54
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The balance of surplus as at January 31, 1936 as shown above represents the following:

Earned surplus	\$ 259,614.56
Appropriated surplus (applicable to no-par common treasury stock)	84,200.00
Capital surplus	1,196,103.98
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	\$1,539,918.54
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INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED JANUARY 31, 1936

NET SALES:		
Owned departments	\$20,313,041.88	
Leased departments	3,625,406.89	\$23,938,448.77
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COST OF GOODS SOLD, SELLING, OPERATING AND ADMINISTRATIVE EXPENSES, exclusive of depreciation		23,251,168.99
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LESS: Depreciation on buildings, leaseholds and fixtures		\$ 687,279.78
		197,246.71
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		\$ 490,033.07
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OTHER INCOME:		
Interest and other non-trading income		45,542.57
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		\$ 535,575.64
PROPORTION OF PROFIT OF A SUBSIDIARY COMPANY APPLICABLE TO ITS MINORITY INTEREST		226.18
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NET PROFIT BEFORE PROVISION FOR FEDERAL INCOME TAX		\$ 535,349.46
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PROVISION FOR FEDERAL INCOME TAX		92,911.56
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NET PROFIT—Statement No. 2		\$ 442,437.90
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S. D. LEIDESDORF & CO.,
Certified Public Accountants,
 125 PARK AVENUE,
 NEW YORK, N. Y.

MARCH 31, 1936.

TO THE BOARD OF DIRECTORS,
 INTERSTATE DEPARTMENT STORES, INC.

We have made an examination of the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1936, and of the consolidated statements of surplus and profit and loss for the year ended January 31, 1936. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of surplus and profit and loss, subject to the comments thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated financial position at January 31, 1936, and the consolidated results of their operations for the year then ended.

S. D. LEIDESDORF & Co.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.

